BELLSOUTH

Maurice P. Talbot, Jr.
Executive Director-Federal Regulatory

Suite 900
1133 - 21st Street, N.W.
Washington, D.C. 20036-3351
202 463-4113
Fax: 202 463-4198
Internet: talbot.maury@bsc.bls.com

EX PARTE OR LATE FILED

March 19, 1997

RECEIVED

MAR 19 1997

Ex Parte

Mr. William F. Caton
Acting Secretary
1919 M Street N.W., Room 222
Federal Communications Commission
Washington, D.C. 20554

RE: Ex Parte Meeting on Universal Service: CC Docket No. 96-45

Dear Mr. Caton:

Today, representatives of BellSouth met with Mr. James Casserly, Legal Advisor to Commissioner Ness to discuss BellSouth's position in the above-mentioned proceeding. The attached charts were provided as an aid to the discussion. These charts are consistent with BellSouth's position already filed in this proceeding. Representing BellSouth were Mr. Whit Jordan and the undersigned.

This notice is being filed today pursuant to Section 1.1206(a)(2) of the Commission's rules. If you have any questions concerning this filing, please do not hesitate to contact me.

Sincerely,

Maurice P. Talbot, Jr.

Maurice P. Talbot, Jr.
Executive Director - Federal Regulatory

Attachment:

cc: J. Casserly

No. of Copies rec'd 0+1
List ABCDE

UNIVERSAL SERVICE

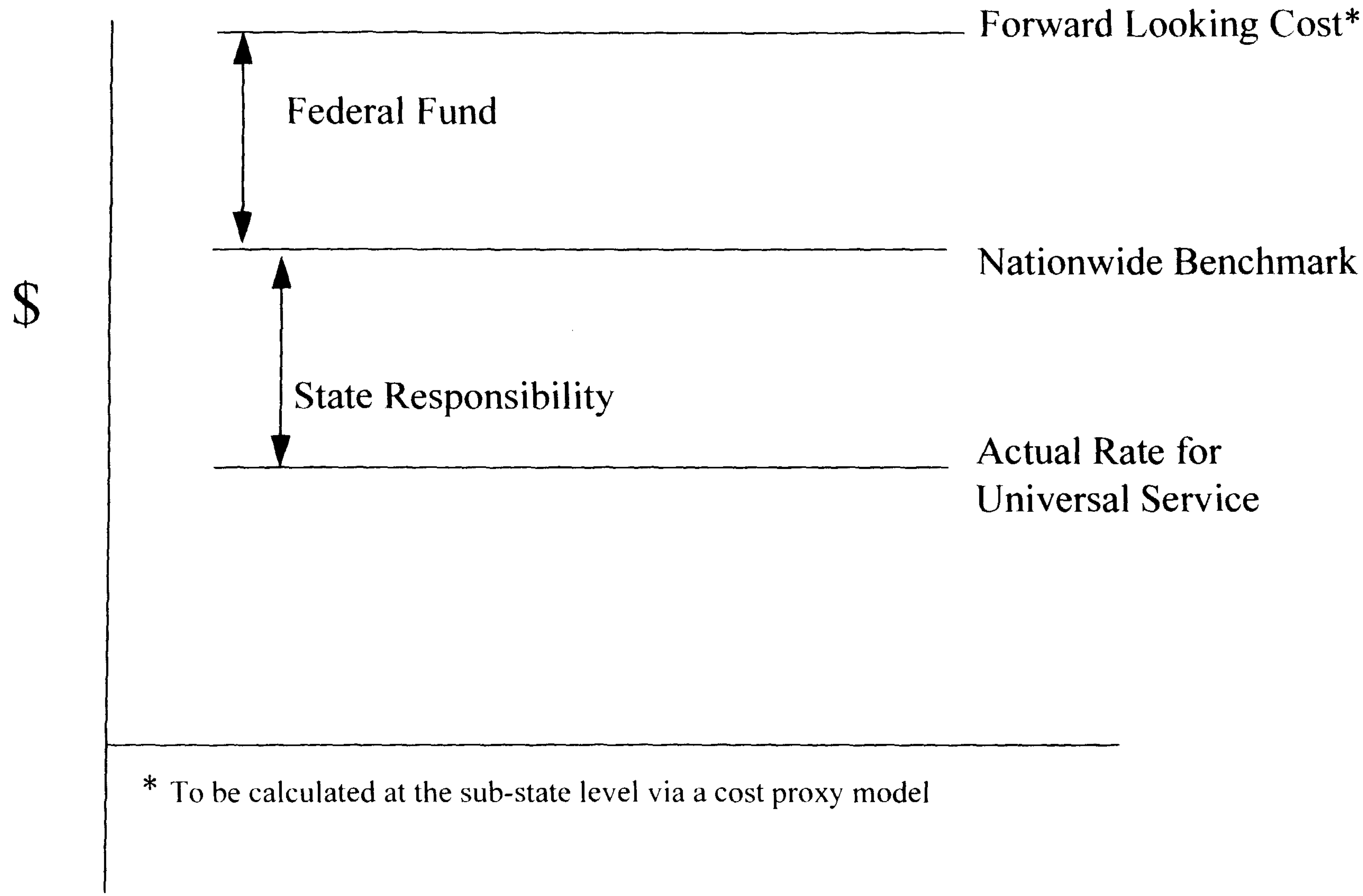
- Act requires size of fund to be sufficient.

- Act requires that implicit support be made explicit.

- Implicit support is not sustainable in the competitive marketplace.

- Federal sources of implicit support include CCL charge, TIC, and local switching.

UNIVERSAL SERVICE HIGH COST SUPPORT OVERVIEW



* To be calculated at the sub-state level via a cost proxy model

SIZE OF FUND

- Sufficient federal high cost fund (approximately $8B) would make interstate support explicit.

- Insufficient federal fund burdens high cost states while low cost states pay little or no support.

- Universal Service is premised on low cost areas supporting high cost areas
  - This is not "inequitable"
  - Averages support for high cost and insular areas over large base

FUNDING UNIVERSAL SERVICE

- Funding should be competitively neutral.

- Contributions can and should be based on interstate and intrastate retail revenues.
  - If small fund established, then only interstate revenues should be used.

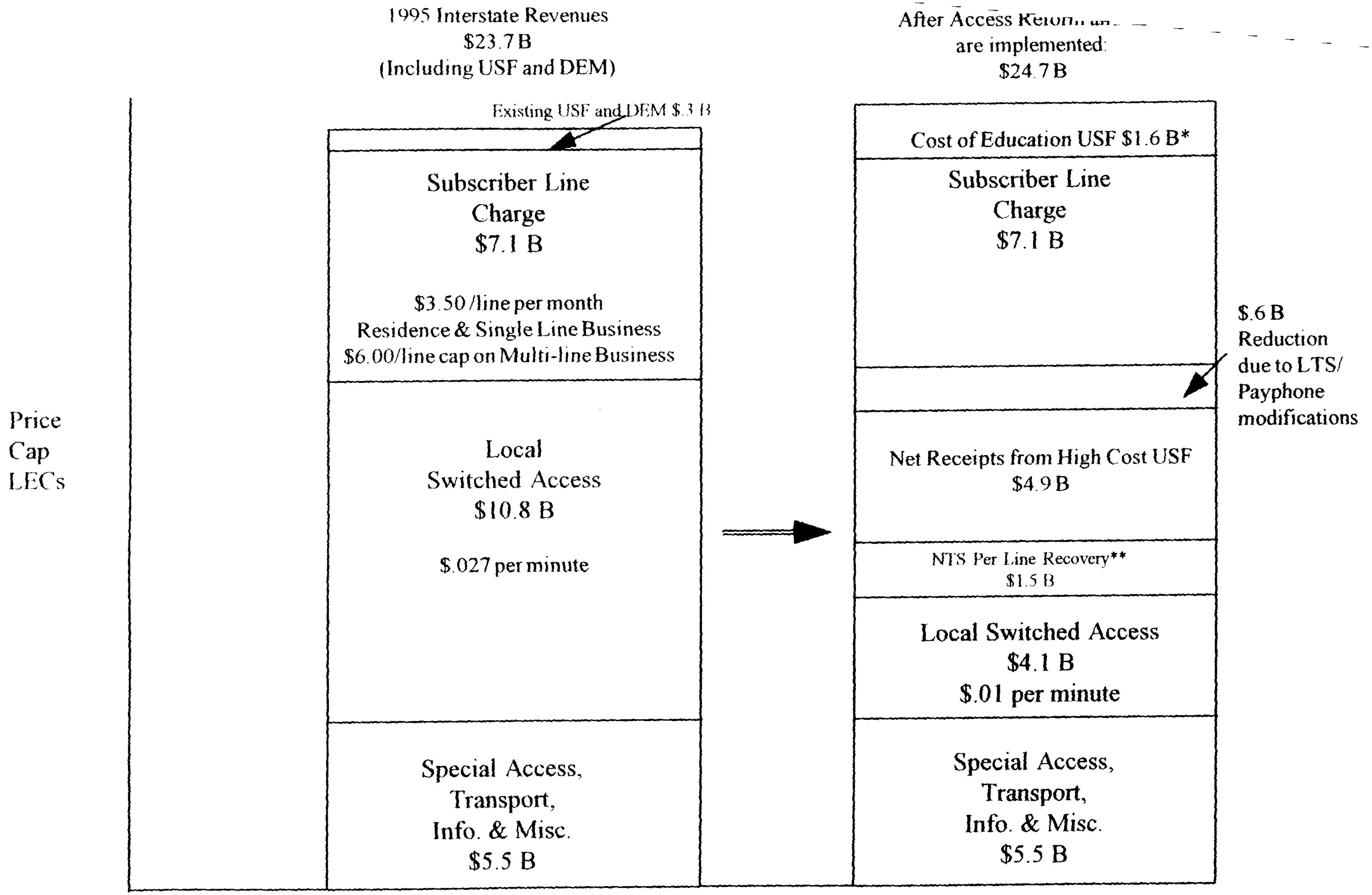
Contributions should be recovered via a mandatory end user surcharge:
  - Explicit
  - Competitively neutral
  - Easy to administer.

- Any contributions not recovered by end user surcharge should be recovered from IXCs on flat-rate basis.

UNIVERSAL SERVICE & ACCESS REFORM

- Universal Service cannot be considered in isolation.
- Transforming implicit subsidy to explicit subsidy requires addressing access elements currently under review in Docket 96-262.
- To prevent double recovery, CCLC, TIC and local switching would be reduced based on net receipts from universal service fund.
- If receipts from fund do not cover all of implicit subsidy, then LECs should bill remainder on flat-rate per line basis to IXCs based on number of presubscribed lines.

Access Charge Reform Scenario



Illustrative - Not to Scale

Notes:
1. Does not reflect any modifications to the subscriber line charge.
2. $14.5 B is a conservative estimate of total combined high cost fund (based on BCM2)

Based on $14.5 B Combined Fund (State and Interstate) for High Cost and a $3 B Fund for Education and Healthcare. Net receipts from Combined High Cost USF (50% of receipts less Interstate assessment) used to recover NTS costs assigned to interstate jurisdiction

*Method of recovery for Education USF:
Surcharge of 1.7% or $.96/line recovery from all lines

**Method of NTS Per Line Recovery:
$.88/line over all lines

PERCENTAGE VS. FLAT-RATE SURCHARGE

Percentage of Monthly Billing (4.3%)



Monthly Bill:	$12	$30	$200
Surcharge%	4.3%	4.3%	4.3%
USF Contribution	$0.52	$1.29	$8.60

Monthly Flat-Rate Per Line ($4/Month)



Monthly Bill:	$12	$30	$200
Per Line Charge	$4	$4	$4

Note: This chart does not reflect the offsetting reductions in toll and other charges which will result.
Percentage based on interstate/intrastate revenues; retail revenues approach

A $10-11 Billion Federal Fund Would Meet "Sufficient" Criteria of the Act

- FCC should take on non-jurisdictional fund which comprises both federal and state.
- $2.25B for education and libraries and minimal additional funding for health care.
- Lifeline/Link-up programs already in place in most states ($350M).
- High cost funding based on interstate and intrastate revenues = $8B.
- Additional implicit support to be dealt with at state level (approximately $8B).

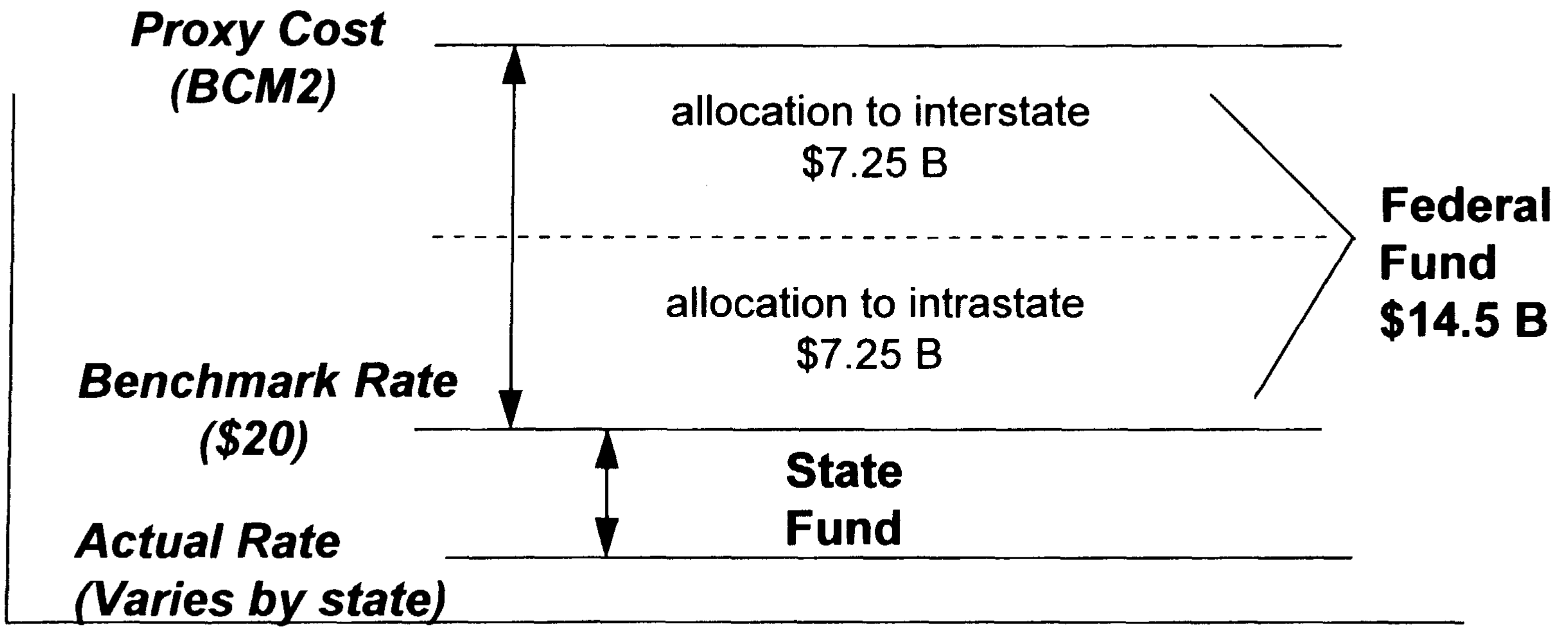
Another Approach: Allocation of High Cost Fund

- **Fund size should be sufficient to provide needed interstate support.**
- **Fund could be allocated 50% interstate and 50% intrastate.**
- **Current HCF precedent in shifting costs to interstate.**
- **USF used to reduce:**

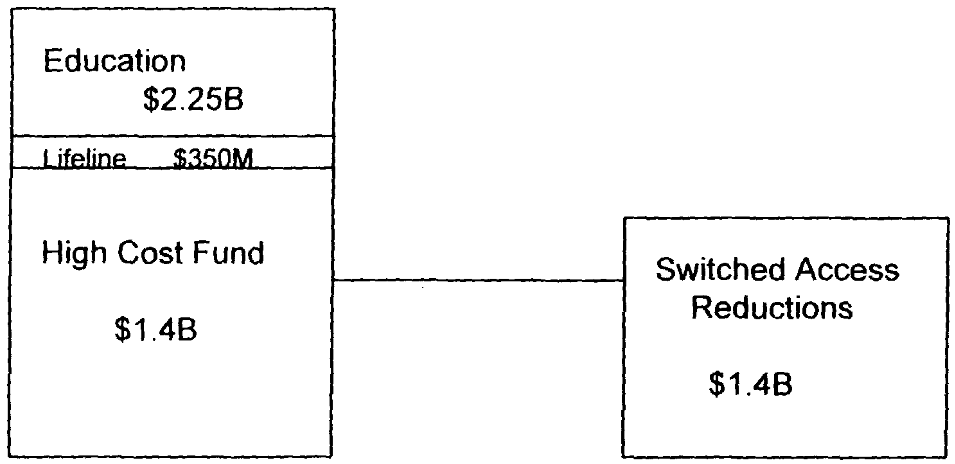
- Federal	**Switched Access**
- State	**Switched Access**
	Toll
	Vertical Services
	Business Services

- **LECs should work with states to determine appropriate offsetting rate reductions. USF should not be used to reduce basic residence or single line business rates.**
- **A netting approach could be used to assess companies for USF contributions in lieu of an end user surcharge.**

EXAMPLE OF UNIVERSAL SERVICE FUNDING SPLIT ALLOCATION APPROACH



A $4B Interstate Fund Would Not Be Sufficient



- Assessment based on interstate revenues.
- Does not address full amount of implicit subsidy.
- Does not address any of state implicit support (no rate rebalancing).
- Assumes a benchmark at unrealistic $60.

ADDITIONAL CONCERNS

- Differentiating between primary and secondary residential lines are difficult.
  - Compounded when multiple carrier environment exists.
  - Provides opportunity for arbitrage between providers; one carrier can offer "special deals" to be provider of primary line.

- Primary line identification is also a challenge where customer has multiple dwellings, often in different regions of the country.

- Cost to implement could exceed cost for support of all lines.

PROXY MODEL ANALYSIS

- Original purpose was to identify high cost areas.

- Ideally, actual costs should be used.
  However, a reasonable proxy model could suffice.

- Any model used must be carefully designed
  - Build quality realistic network
  - Based on future demand
  - Inputs critical; “garbage in-garbage out”

- Any cost proxy model chosen should be validated against tops down model (e.g., SPR approach) or actual costs.

CHOICE OF PROXY MODEL

- Ultimate model chosen should be consistent with geographic areas used for unbundled elements to prevent arbitrage.
- All variables that impact costs must be included (e.g., extra costs associated with unique local conditions such as hurricanes or zoning).
- No model currently under review "ready for prime time."
- Given the importance of model decision, the FCC must continue to work closely with the industry.